LSU FOUNDATION

Consolidated Financial Statements

June 30, 2014

P&N

LSU FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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P&N Postlethwaite & Netterville
A Professional Accounting Corporation
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INDEPENDENT AUDITORS' REPORT

Board of Directors
LSU Foundation
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the LSU Foundation, the LSU Property Foundation, and the LSU Marine Property Foundation (collectively, "the Foundation"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to an entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of an entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2014 and 2013, and the results of its consolidated activities and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Postlethwaite & Netterville

Baton Rouge, Louisiana
October 9, 2014

LSU FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 20,126,887	$ 15,720,644
Restricted cash	6,964,269	-
Investments	2,826,617	6,378,830
Accrued interest receivable	716,893	569,369
Accounts receivable, net	206,753	747,093
Unconditional promises to give, net	17,494,249	6,796,551
Other current assets	91,382	149,157
Total current assets	48,427,050	30,361,644
NONCURRENT ASSETS		
Restricted assets:		
Investments	539,977,001	497,340,173
Investments - split-interest agreements	4,185,226	4,588,903
Assets held in split-interest agreements	473,312	461,037
Beneficial interest in split-interest agreements	566,623	1,990,136
Investment in partnership	16,687,549	17,189,146
Unconditional promises to give, net	23,202,431	6,958,089
Property and equipment, net	9,717,090	8,093,025
Other noncurrent assets	840,343	799,231
Total noncurrent assets	595,649,575	537,419,740
Total Assets	$ 644,076,625	$ 567,781,384

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 4,166,694	$ 3,449,702
Current portion of amounts held in custody for others	19,550,513	17,915,739
Compensated absences payable and other payroll liabilities	326,099	280,782
Current portion of bonds payable	628,395	628,395
Current portion of notes payable	2,204,284	539,483
Other current liabilities	14,687	18,538
Total current liabilities	26,890,672	22,832,639
NONCURRENT LIABILITIES		
Amounts held in custody for others	110,401,293	100,300,853
Refundable advances	263,300	63,300
Notes payable, net of current portion	-	2,189,284
Bonds payable, net of current portion	4,341,605	4,966,605
Total noncurrent liabilities	115,006,198	107,520,042
Total liabilities	141,896,870	130,352,681
NET ASSETS		
Unrestricted:		
Unrestricted - general	15,465,062	11,919,830
Board designated endowments	9,100,817	7,892,335
Net assets relating to partnership investment	16,687,549	17,189,146
Temporarily restricted	242,313,527	186,302,576
Permanently restricted	218,612,800	214,124,816
Total net assets	502,179,755	437,428,703
Total Liabilities and Net Assets	$ 644,076,625	$ 567,781,384

LSU FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Changes in unrestricted net assets:		
Contributions	$ 4,153,992	$ 1,087,121
Service fees	1,184,826	1,068,607
Earnings allocation	4,514,425	5,218,343
Investment advisory fees	675,000	675,000
Gain on the sales and disposition of assets	26,084	200
Total unrestricted revenues	10,554,327	8,049,271
Net assets released from donor restrictions	38,246,864	28,516,032
Total unrestricted revenues and other support	48,801,191	36,565,303
Expenses:		
Amounts paid to benefit Louisiana State University for:		
Projects specified by donors	34,638,035	25,267,669
Projects specified by the Board of Directors	712,804	1,919,526
Total program expenses	35,350,839	27,187,195
Supporting services:		
Salaries and benefits	6,532,118	5,826,672
Occupancy	187,110	175,597
Office operations	1,160,078	639,162
Travel	128,706	121,514
Professional services	682,665	671,124
Dues and subscriptions	83,317	93,747
Meetings and development	401,440	254,907
Depreciation	22,801	27,954
Total supporting services	9,198,235	7,810,677
Total expenses	44,549,074	34,997,872
Change in unrestricted net assets	4,252,117	1,567,431

The accompanying notes are an integral part of these financial statements.

LSU FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Changes in temporarily restricted net assets:		
Contributions	$ 55,900,842	$ 23,907,508
Earnings allocation	38,292,615	25,665,151
Changes in value of split-interest agreements	105,486	39,660
Gain (loss) on the sales and disposition of assets	(42,500)	70,534
Total temporarily restricted revenues	94,256,443	49,682,853
Net assets released from donor restrictions	(38,245,492)	(28,505,423)
Change in temporarily restricted net assets	56,010,951	21,177,430
Changes in permanently restricted net assets:		
Contributions	4,618,859	6,495,268
Earnings allocation	-	64
Gain (loss) on the sales and disposition of assets	-	57,541
Changes in value of split-interest agreements	(129,503)	-
Total permanently restricted revenues	4,489,356	6,552,873
Net assets released from donor restrictions	(1,372)	(10,609)
Change in permanently restricted net assets	4,487,984	6,542,264
Change in net assets	64,751,052	29,287,125
Net assets - beginning of year	437,428,703	408,141,578
Net assets - end of year	$ 502,179,755	$ 437,428,703

The accompanying notes are an integral part of these financial statements.

LSU FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 32,185,271	$ 25,592,292
Service fees and investment advisory fees received	1,859,826	1,068,607
Interest and dividends received	2,315,745	6,718,981
Grants paid to benefit Louisiana State University	(33,883,893)	(25,957,797)
Cash paid for supporting services	(8,288,829)	(7,185,495)
Interest expense	(116,973)	(198,999)
Net cash provided by (used in) operating activities	(5,928,853)	37,589
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,416,349)	(1,435,809)
Proceeds from sales of property and equipment	320,053	4,373,807
Purchases of investments	(174,069,425)	(326,433,822)
Proceeds from sales and maturities of investments	188,795,710	321,863,472
Net cash provided by (used in) investing activities	13,629,989	(1,632,352)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment purposes	4,618,859	6,484,659
Principal payments on notes payable	(524,483)	(4,594,358)
Principal payments on bonds payable	(625,000)	(630,000)
Net increase in refundable advances	200,000	-
Investment gains restricted for endowment purposes	-	64
Net cash provided by financing activities	3,669,376	1,260,365
Net change in cash and cash equivalents	11,370,512	(334,398)
Cash and cash equivalents - beginning of the year	15,720,644	16,055,042
Cash and cash equivalents - end of the year	$ 27,091,156	$ 15,720,644

The accompanying notes are an integral part of these financial statements.

LSU FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

	2014	2013
Change in net assets	$ 64,751,052	$ 29,287,125
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	39,944	27,954
Amortization of bond issuance costs	8,800	8,800
Increase (decrease) in discounts on unconditional promises to give	325,997	(1,261,906)
(Gain) loss on sales and disposals of assets	16,416	(128,275)
Unrealized (gain) loss on investments	(23,832,740)	3,927,173
Loss on investment in partnership	501,597	441,922
Net gain on investment transactions	(17,441,580)	(28,220,696)
Receipt of non-cash donations	(2,338,761)	(20,000)
Transfer of non-cash assets to Louisiana State University	1,356,943	1,182,465
Contributions restricted for endowment purposes	(4,618,859)	(6,484,659)
Decrease (increase) in accrued interest receivable	(147,524)	186,474
Decrease (increase) in accounts receivable	540,340	(530,934)
Decrease (increase) in unconditional promises to give	(27,268,037)	3,160,530
Decrease (increase) in beneficial interest in split-interest agreements	1,411,238	(1,966,570)
Decrease (increase) in other assets	7,863	(67,684)
Increase in accounts payable and other liabilities	758,458	495,870
Net cash provided by (used in) operating activities	$ (5,928,853)	$ 37,589

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies and Presentations

Organization and purpose

The LSU Foundation (the "Foundation") is a non-profit organization which was organized to promote the educational and cultural welfare of the Louisiana State University System Office, the Louisiana State University and Agricultural and Mechanical College, the Louisiana State University Agricultural Center, and the Paul M. Hebert Law Center, herein collectively referred to as "the University," by accepting contributions for the purpose of scholarships, academic support, research support, and other designated projects for the benefit of the University.

Consolidation

The Foundation elects all of the members of the LSU Property Foundation's board of directors and, therefore, is considered to have a majority voting interest in the LSU Property Foundation's board. The LSU Property Foundation is the sole member of the LSU Marine Property Foundation, the LSU Museum, LLC, the Stephenson Disaster Management Institute Films, LLC, the LSUPF Gym and Performing Arts, LLC, the PERTT Lab, LLC, the Hilltop Facility, LLC, the Equine Lameness Unit, LLC, and the Foundation Office Building, LLC. The LSU Foundation is the sole member of the Cary Estate – Surface Property, LLC, the Cary Estate – Working Interests, LLC, and the Cary Estate – Non-Working Interests, LLC. As such, the consolidated financial statements of the Foundation include the accounts of the LSU Property Foundation, those LLCs for which the LSU Property Foundation is sole member, those LLCs for which the LSU Foundation is sole member, and the LSU Marine Property Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting; accordingly, all significant receivables, payables, and other liabilities are recorded.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash equivalents

The Foundation considers all highly liquid investments with maturities of three months or less at the date of acquisition to be cash equivalents.

The Foundation, at times, may have deposits in excess of FDIC insured limits. Management, however, believes the credit risk associated with these deposits is minimal.

1. **Significant Accounting Policies and Presentations (continued)**

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based on quoted market prices. Investments in non-exchange traded debt and equity instruments are valued using independent pricing services or by broker/dealers who actively make markets in these securities. Investments managed by external advisors include investments in limited partnerships and commingled funds. The majority of these external investments are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisor, subject to assessments that the information is representative of fair value and in consideration of any additional factors deemed pertinent to the fair value measurement. If situations occur where the information provided by the external advisor is deemed to not be representative of fair value as of the measurement date, management evaluates specific features of the investment and utilizes supplemental fair value information provided by the external advisor along with any relevant market data to measure the investment's fair value.

Fair value is based on a combination of information obtained from independent appraisals and/or one or more industry standard valuation techniques (e.g., income approach, market approach or cost approach). The income approach is primarily based on the investment's anticipated future income using one of two principal methods, the discounted cash flow method or the capitalization method. Inputs and estimates developed and utilized in the income approach may be subjective and require judgment regarding significant matters such as estimating the amount and timing of future cash flows and the selection of discount and capitalization rates that appropriately reflect market and credit risks. The market approach derives investment value through comparison to recent and relevant market transactions with similar investment characteristics. The cost approach is utilized when the cost or the replacement cost amounts are determined to be the best representation of fair value. This method is typically used for newly purchased or undeveloped assets. These values are determined under the direction of, and subject to review by, the Foundation's management.

Dividend, interest, and other investment income is recorded as an increase in unrestricted, temporarily restricted, or permanently restricted net assets depending on donor stipulations.

Donated investments are recorded at their fair value at the date of receipt, which is then treated as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. Realized gains and losses are recognized in the Foundation's current operations.

Fair values of financial instruments

The Foundation's financial instruments, excluding investments which are described in Note 2 and split-interest agreements which are recorded at estimated fair value, include cash and cash equivalents, bonds payable, and unconditional promises to give. The Foundation estimates that the fair values of all these financial instruments at June 30, 2014 and 2013 do not differ materially from the aggregate carrying values of these financial instruments recorded in the accompanying statements of financial position.

1. Significant Accounting Policies and Presentations (continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted or permanently restricted net assets are reclassified to unrestricted or temporarily restricted, as appropriate, and reported in the statements of activities as net assets released from restrictions.

Promises to give

Unconditional promises to give are recognized as revenue in the period received. Promises to give are recorded at their realizable value if they are expected to be collected in one year and at their fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. An allowance for doubtful accounts has been established based on management's assessment of collectability.

Property and equipment

Purchased property and equipment are recorded at cost. Property and equipment donated to the Foundation are recorded at their fair values at the date of donation which is then treated as cost. Depreciation is provided over the estimated useful lives of exhaustible assets on a straight-line basis. Inexhaustible assets, such as artwork and collections, are not depreciated. These inexhaustible assets are evaluated for impairment.

Split-interest agreements

The Foundation is the beneficiary of various charitable gift annuities. Charitable gift annuities are arrangements between a donor and an organization in which the donor contributes assets to the organization in exchange for a promise by the organization to pay a fixed amount for a specified period of time to the donor or other parties designated by the donor. The assets received are recorded at fair value and reported as investments - split-interest agreements on the statements of financial position. When the annuity is initially executed, the difference between the fair value of assets received and the present value of the annuity payment liability is reported as contribution revenue in the statements of activities. On an annual basis, the annuity payment liability is revalued using present value techniques and actuarial assumptions, including applicable mortality tables. Changes in the present value of the annuity payment liability are reported in the statements of activities as a change in the value of split-interest agreements. The present value of the liability is included in the statements of financial position as funds held in custody.

1. Significant Accounting Policies and Presentations (continued)

Funds held in custody

The Foundation considers all state matching funds and unexpended income from these funds to be funds held in custody. Additionally, amounts held for other LSU System affiliated foundations and liabilities associated with charitable gift annuities and charitable remainder trusts are also reported as funds held in custody. All funds held in custody are recorded in the statements of financial position at their fair market values.

Accrued vacation leave

The Foundation records a liability for accrued and unused vacation of its employees. The balances in accrued and unused vacation totaled $298,257 and $257,085 at June 30, 2014 and 2013, respectively.

Income taxes

The LSU Foundation, the LSU Property Foundation, and the LSU Marine Property Foundation operate as public charities under Section 501(c)(3) of the Internal Revenue Code and, accordingly, are exempt from federal and state income taxes and the excise tax which applies to certain foundations.

The Foundation accounts for income taxes in accordance with the income tax accounting guidance included in the Accounting Standards Codification (ASC). The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than fifty percent likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Foundation has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. With few exceptions, the Foundation is no longer subject to examinations by tax authorities for years ended before June 30, 2011.

Reclassification

Certain reclassifications have been made to the financial statements and footnotes as of and for the year ended June 30, 2013, in order for them to conform to the current year presentation.

2. Investments

Investments in debt and equity securities with readily determinable fair values are stated at their estimated fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for further discussion of fair value measurements.

The Foundation segregates its investments into four separate pools based on donor imposed restrictions and internal designations and has established separate investment strategies for these pools. Investment earnings are allocated to unrestricted, temporarily restricted and permanently restricted net assets based on donor restrictions for certain permanently endowed funds and based on policies approved by the Board of Directors for certain non-endowed funds. The Foundation employs a unitized method of accounting for pooled endowed investments. Each participating fund enters into and withdraws from the pooled investment account based on monthly unit values. Monthly unit values reflect changes in the fair value of investments within the investment pool. A spending allocation approved by the Board of Directors is made each year to the funds on a per unit basis.

The asset allocation of the Foundation's portfolio involves exposure to a diverse set of markets which involve various risks such as interest rate risk, market risk, and credit risk. The Foundation believes that the value of its investments may, from time to time, fluctuate substantially as a result of these risks. The Foundation has also entered into agreements with private equity and real estate partnerships. See Note 15 for cash commitments relating to these investments.

Investments were comprised of the following at June 30, 2014 and 2013:

	2014	2013
Government agency obligations	$ 57,522,246	$ 67,718,120
Corporate obligations	44,542,728	24,417,154
Common stocks	3,452,508	3,675,984
Mutual funds	271,253,258	225,392,892
Commingled funds	18,014,305	77,462,758
Hedge funds	90,417,454	77,714,936
Municipal bonds	3,200,290	4,367,098
Private equity	46,440,186	27,371,857
Pooled income funds	-	33,023
Group variable annuity	11,991,785	-
Royalty interests	154,084	154,084
	$ 546,988,844	$ 508,307,906

2. **Investments (continued)**

Investment earnings (losses), net of fees, were comprised of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Interest and dividend income	$ 2,034,317	$ 7,031,957
Realized gain on investment transactions	17,441,580	28,220,696
Unrealized gain (loss) on investments	23,832,740	(3,927,173)
Unrealized loss on investment in Shaw Center for the Arts, LLC	(501,597)	(441,922)
	$ 42,807,040	$ 30,883,558

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below corpus. Deficiencies of this nature that are reported in temporarily restricted net assets were $0 and $1,437 as of June 30, 2014 and June 30, 2013, respectively. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains that restored the fair value of the assets of the endowment fund to corpus were classified as an increase in temporarily restricted net assets.

3. **Fair Values of Financial Instruments**

In accordance with the Fair Value Measurements and Disclosure topic of FASB ASC, disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments; therefore, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Foundation.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

3. **Fair Values of Financial Instruments (continued)**

Fair Value Hierarchy

The ASC topic on Fair Value Measurements and Disclosures establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation utilizes several externally managed funds for private equity, venture capital, and hedge funds, and with these types of investments, quoted prices are often unavailable, and pricing inputs are generally unobservable. Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. In certain instances, several valuation techniques are utilized by external managers (e.g. the market approach or the income approach) for which sufficient and reliable data is available. The use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. In circumstances in which net asset value per share of an investment is not determinative of fair value, the manager is permitted, as a practical expedient, to estimate the fair value of an investment in an investment company using the net asset value per share of the investment (or its equivalent) without further adjustment, if the net asset value per share of the investment is determined in accordance with the specialized accounting guidance for Investment Companies as of the reporting entity's measurement date. The application of those valuation procedures and methodologies are borne out in each manager's compliant annual audited financial statements and were monitored through the Foundation's reporting periods ended June 30, 2014 and 2013.

3. Fair Values of Financial Instruments (continued)

Level 3 Valuation Techniques

Although direct valuation techniques and methodologies for Level 3 assets are not completed internally, Foundation staff and the Foundation's investment consultant conduct ongoing monitoring and review of managers to ensure that reporting and valuation techniques are in accordance with industry standards and best practices. Capital statements, performance, and pertinent news regarding changes in management are scrutinized as an internal part of the due diligence process prior to hiring a manager. These same elements are monitored on an on-going basis, as a matter of regular business practice, following the hiring of a manager. Level 3 asset types for which this due diligence process and focused monitoring are applied internally are commingled funds, hedge funds, other private equity, and commodities and natural resources.

The valuation process conducted internally for those Level 3 assets categorized as Beneficial Interests in Split-Interest Agreements primarily entails a calculation of the present value of proceeds expected to be received in accordance with the terms of the agreement. Each agreement is reviewed by management to determine the amount of any contractual and/or estimated payments to income beneficiaries using available actuarial data. The present value is calculated using an assumed rate of risk as recommended by the Chief Investment Officer in conjunction with actuarial data tables published by the Social Security Administration.

3. **Fair Values of Financial Instruments (continued)**

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2014:

	Level 1	Level 2	Level 3
Government agency obligations	$ -	$ 57,522,246	$ -
Municipal bonds	-	3,200,290	-
Corporate obligations	-	44,542,728	-
Common stocks	3,373,538	78,970	-
Mutual funds:			
Domestic large cap equity	44,406,399	-	-
Domestic small cap equity	28,313,370	-	-
Dev. foreign large cap equity	25,620,972	-	-
Dev. foreign small cap equity	15,368,278	-	-
Emerging market equity	34,468,103	-	-
Global real estate	20,781,060	-	-
Inflation protection	22,033,760	-	-
Hedge fund	19,948,734	-	-
Core fixed income	60,312,582	-	-
Commingled funds:			
Commodities and natural resources	-	-	9,164,861
Emerging market equity	-	-	8,849,444
Hedge funds	-	-	90,417,454
Private equity:			
Venture capital	-	-	4,055,817
Mezzanine / distressed debt	-	-	14,725,079
Other private equity	-	-	20,531,671
Commodities and natural resources	-	-	7,127,619
Group variable annuity:			
Commodities and natural resources	-	-	11,991,785
Trust funds held by agent	473,312	-	-
Beneficial interest in split-interest agreements	-	-	566,623
	$ 275,100,108	$ 105,344,234	$ 167,430,353

3. **Fair Values of Financial Instruments (continued)**

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2013:

	Level 1	Level 2	Level 3
Government agency obligations	$ -	$ 67,718,120	$ -
Municipal bonds	-	4,367,098	-
Corporate obligations	-	24,417,154	-
Common stocks	3,640,362	15,622	-
Mutual funds:			
Domestic large cap equity	42,755,715	-	-
Domestic small cap equity	27,734,128	-	-
Dev. foreign large cap equity	24,591,538	-	-
Dev. foreign small cap equity	14,216,489	-	-
Emerging market equity	40,839,406	-	-
Commodities and natural resources	11,486,546	-	-
Global real estate	19,119,830	-	-
Inflation protection	25,426,270	-	-
Hedge Fund	19,222,970	-	-
Commingled funds:			
Core plus fixed income	-	445,903	68,787,300
Commodities and natural resources	-	-	8,229,555
Hedge funds	-	-	77,714,936
Private equity:			
Venture capital	-	-	3,836,915
Mezzanine / distressed debt	-	-	2,597,270
Other private equity	-	-	17,745,262
Commodities and natural resources	-	-	3,192,410
Pooled income fund	33,023	-	-
Trust funds held by agent	461,037	-	-
Beneficial interest in split-interest agreements	-	-	1,990,136
	$ 229,527,314	$ 96,963,897	$ 184,093,784

3. Fair Values of Financial Instruments (continued)

The following table presents the changes in fair value in Level 3 instruments that are measured at fair value on a recurring basis for the years ended June 30, 2014 and 2013:

	Commingled Funds	Hedge Funds	Private Equity	Group Variable Annuity	Other	Total
Balance - June 30, 2012	$ 74,386,642	$ 56,031,443	$ 21,046,834	$ -	$ 23,566	$151,488,485
Purchases / capital calls / receipts	14,500,000	64,500,000	7,718,893	-	1,925,183	88,644,076
Sales	(12,020,267)	(46,651,013)	(4,383,278)	-	-	(63,054,558)
Unrealized gains (losses)	(1,226,849)	(2,060,482)	1,556,122	-	41,387	(1,689,822)
Realized gains (losses)	1,377,329	5,894,988	1,433,286	-	-	8,705,603
Balance - June 30, 2013	77,016,855	77,714,936	27,371,857	-	1,990,136	184,093,784
Purchases / capital calls / receipts	8,000,000	24,174,780	17,685,039	10,000,000	-	59,859,819
Sales	(63,697,198)	(11,352,300)	(3,688,984)	-	(1,399,202)	(80,137,684)
Unrealized gains	4,967,233	450,475	7,237,807	1,991,785	105,192	14,752,492
Realized gains (losses)	(8,272,585)	(570,437)	(2,165,533)	-	(129,503)	(11,138,058)
Balance - June 30, 2014	$ 18,014,305	$ 90,417,454	$ 46,440,186	$ 11,991,785	$ 566,623	$167,430,353

The realized and unrealized gains or losses recorded during the years ended June 30, 2014 and 2013 are included in the statement of activities as earnings allocation within unrestricted or temporarily restricted net assets based on donor restrictions for certain permanently endowed funds and based on policies approved by the Board of Directors for certain non-endowed funds.

Fair Value of Assets Measured on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the tables above. These assets totaled $154,084 and $174,084 at June 30, 2014 and 2013, respectively.

4. Unconditional Promises to Give

Unconditional promises to give at June 30, 2014 and 2013 were as follows:

	2014	2013
Promises to give expected to be collected in:		
Less than one year	$ 17,675,089	$ 6,987,101
One to five years	23,252,139	7,297,990
More than five years	668,670	42,770
	41,595,898	14,327,861
Less discount on promises to give	(718,378)	(382,671)
Less allowance for uncollectible accounts	(180,840)	(190,550)
Net unconditional promises to give	$ 40,696,680	$ 13,754,640

The discount rates used in discounting unconditional promises to give were 0.58% and 0.25% as of June 30, 2014 and 2013, respectively.

5. Split-Interest Agreements

The Foundation serves as trustee for several charitable remainder trusts for which the Foundation is not the irrevocable beneficiary. The funds are held and administered by a third-party financial institution as an agent of the Foundation. The fair value of the funds held is reported as an asset and corresponding liability in the statements of financial position. As of June 30, 2014 and 2013, the fair value of both the asset and corresponding liability of these charitable remainder trusts totaled $473,312 and $461,037, respectively.

The Foundation is the irrevocable beneficiary of several split-interest agreements for which the funds are held and administered by third parties. The Foundation's interest in the funds held by the third parties is measured at its present value and reported as assets in the statements of financial position as beneficial interest in split-interest agreements. As of June 30, 2014 and 2013, the fair value of the beneficial interests totaled $566,623 and $1,990,136, respectively.

The Foundation has several charitable gift annuity arrangements with donors in which the Foundation has received assets from a donor in exchange for the Foundation's promise to pay the donor or his or her designee a fixed amount over a specified period of time. The assets are held as investments of the Foundation and are reported as investments-split-interest agreements on the statements of financial position at their fair values of $4,185,226 and $4,588,903 as of June 30, 2014 and 2013, respectively. The present value of the amount due to these donors or their designees as of June 30, 2014 and June 30, 2013, totaled $2,147,079 and $2,351,168, respectively.

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2014 and 2013:

	2014	2013
Computers	$ 1,092,896	$ 1,208,596
Furniture and equipment	229,310	289,138
Livestock	120,000	120,000
	1,442,206	1,617,734
Less: accumulated depreciation	(1,351,320)	(1,504,002)
	90,886	113,732
Construction in progress	1,131,152	1,103,921
Land	4,268,009	2,602,509
Artwork and other non-depreciable assets	4,227,043	4,272,863
	$ 9,717,090	$ 8,093,025

For the years ended June 30, 2014 and 2013, depreciation expense of $17,143 and $17,152, respectively, was included in projects specified by the Board of Directors in the consolidated statement of activities for those assets which are not considered unrestricted by the Foundation.

7. Investment in Shaw Center for the Arts

The LSU Foundation is a 50% investor in the Shaw Center for the Arts, LLC, and accordingly, accounts for the investment using the equity method of accounting. The investments recorded on the statements of financial position totaled $16,687,549 and $17,189,146 at June 30, 2014 and 2013, respectively. The summarized unaudited financial information as of and for the year ended June 30, 2014 and audited financial information as of and for the year ended June 30, 2013 of the Shaw Center for the Arts, LLC is as follows:

	2014	2013
Total assets	$ 33,501,214	$ 34,503,443
Total liabilities	$ 126,116	$ 126,257
Net loss	($ 1,002,088)	($ 841,414)

8. Notes Payable

In January of 2010, the Foundation borrowed $2,720,839 in connection with the construction of the new business education complex. The note accrues interest at a variable rate equal to the greater of the one-month LIBOR plus 175 basis points or 1% plus 175 basis points (2.75% at June 30, 2014 and 2013), requires quarterly interest payments, and matures on January 18, 2015. The note is secured by pledges related to the new complex, and the Foundation applies all pledges received against the outstanding balance on the note payable. The outstanding balance at June 30, 2014 and 2013 was $180,000 and $704,483, respectively.

On October 1, 2011, the Foundation converted a previous line of credit to a note payable in the amount of $7,742,414. The note accrues interest at a fixed rate of 3.00% and is uncollateralized. The outstanding balance at both June 30, 2014 and 2013 was $2,024,284 and is due on December 31, 2014.

9. Bonds Payable

On May 1, 2003, the Foundation participated in borrowing, along with several other organizations, the proceeds of revenue bonds totaling $31,555,000 issued by the Louisiana Public Facilities Authority. The Foundation's portion of the borrowing was $12,725,000. As noted in footnote 18, the bonds, which were scheduled to be paid by June 30, 2022, were paid in full on October 9, 2014. The borrowed funds were used to help fund several construction projects including the Shaw Center for the Arts.

Interest is currently being paid using a weekly rate as determined by the remarketing agent. The interest rate at June 30, 2014 and 2013 was 1.01% and 1.00%, respectively. Total interest expense incurred on the bonds for the years ended June 30, 2014 and 2013 was $43,227 and $52,352, respectively. The bonds are collateralized by future revenues of the Foundation.

The principal portion of the current outstanding debt is scheduled to mature as follows:

Year ending June 30,	Amount
2015	$ 628,395
2016	628,395
2017	628,395
2018	628,395
2019	628,395
2020 - 2022	1,828,025
	$ 4,970,000

10. Funds Held In Custody

Under agreements with the University and certain other charitable organizations, the Foundation manages and holds for deposit designated funds for these entities. The funds being held at June 30, 2014 and 2013 were as follows:

	2014	2013
LSU - Alexandria Foundation	$ 17,064,539	$ 15,799,323
LSU - Eunice Foundation	2,299,913	2,102,397
Tiger Athletic Foundation	11,805,652	10,454,071
State Matching Funds Managed for the University	96,161,311	87,048,596
Split-interest agreements	2,620,391	2,812,205
	129,951,806	118,216,592
Less: portion classified as current	(19,550,513)	(17,915,739)
	$ 110,401,293	$ 100,300,853

11. Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 were available for grants to support Louisiana State University in the following general areas:

	2014	2013
Chairs and professorships	$ 58,842,118	$ 53,230,108
Scholarships and fellowships	36,279,331	32,676,216
Academic support and development	78,331,053	74,213,336
Capital outlay and improvements	52,164,792	15,661,432
Research support	6,046,027	6,653,067
Institutional support	10,650,206	3,868,417
	$ 242,313,527	$ 186,302,576

Net assets were released from donor restrictions by satisfaction of the restricted purposes or by occurrence of other events specified by the donors during the years ended June 30, 2014 and 2013, as follows:

	2014	2013
Chairs and professorships	$ 6,039,599	$ 5,251,865
Scholarships and fellowships	5,421,496	4,263,045
Academic support and development	15,113,539	13,753,429
Capital outlay and improvements	9,702,215	3,786,362
Research support	1,752,236	1,335,849
Institutional support	217,779	125,482
	$ 38,246,864	$ 28,516,032

Permanently restricted net assets at June 30, 2014 and 2013 were restricted to investments in perpetuity, the income from which is expendable to support the activities below:

	2014	2013
Chairs and professorships	$ 115,762,656	$ 114,371,766
Scholarships and fellowships	56,033,365	53,237,089
Academic support and development	44,621,775	44,379,074
Capital outlay and improvements	185,925	185,925
Research support	2,009,079	1,950,962
	$ 218,612,800	$ 214,124,816

12. Endowed Net Assets

The LSU Foundation has established prudent investment and spending policies with the objective of maintaining the purchasing power of its endowed assets in perpetuity and providing a stable level of support to the beneficiaries. To achieve this objective, the LSU Foundation's asset allocation strategy is reviewed periodically and adjusted to target a total return that covers inflation, administrative expenses, and spending allocations, while minimizing volatility.

Certain endowed funds are provided by the State of Louisiana as a match to qualifying private endowed contributions and are managed under agreement with the University for the University's benefit. These state matching endowed funds, which are maintained in a separate pool from other Foundation investments, are further subject to the investment and spending policies established by the Louisiana Board of Regents, which has statutory authority to administer the matching funds program.

A spending rate is determined by the LSU Foundation Board of Directors on an annual basis, with consideration given to the market conditions, the spending levels of peer institutions, and the level of real return after spending measured over the long term. The spending rate approved by the Board is applied to the sixty-month moving average fair value of the investment pool of endowed assets. The objective is to provide relatively stable spending allocations. The net spending rate approved by the Board of Directors for each of the years ended June 30, 2014 and 2013, was 4.00%.

Effective July 1, 2010, the Louisiana legislature enacted Act No. 168 (the "Act") to implement the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as the standard for the management and investment of institutional funds in Louisiana. The Act permits an institution to appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to the intent of the donor as expressed in the gift instrument.

In its interpretation of the law, the Foundation Board has determined that it is prudent for those endowed funds with no donor restrictions to the contrary that market value in excess of 80% (eighty percent) of corpus be made available for appropriation for expenditure within the provisions of the Board's annual establishment of spending policy. The portion that has not been determined to be available for expenditure is considered by the Board to be funds of perpetual duration and is classified as Permanently Restricted Net Assets. That portion that has been determined under relevant law by the Board to be available for appropriation is classified as Temporarily Restricted Net Assets. In making such determination, the Board considered the following factors: the duration and preservation of the endowment fund; the purposes of the institution and the endowment fund; general economic conditions; the possible effect of inflation or deflation; expected total return from income and appreciation of investments; other resources of the institution; and the investment policy of the institution. During the years ended June 30, 2014 and 2013, some donors amended restrictions on their contributions to provide that the market value of such contributions in excess of 80% (eighty percent) of corpus be made available for appropriation for expenditure, resulting in net assets of $1,372 and $10,609 in 2014 and 2013, respectively, being released from permanent restriction and classified as temporarily restricted.

The Louisiana Board of Regents spending policy dictates that the market value of each endowment at the end of the most recent fiscal trust fund year must exceed the original corpus of the endowment by an amount equal to the amount to be made available for expenditure in the next fiscal year for which a spending allocation is made. When the current market value of each endowment is below the original corpus, no spending is allowed.

12. Endowed Net Assets (continued)

The LSU Foundation Board of Directors has chosen to manage a portion of its unrestricted net assets as part of the endowed funds investment pool. At June 30, 2014 and 2013, the fair value of these Board Designated Endowed Funds was $9,100,817 and $7,892,335, respectively. The Foundation reclassed market value adjustments from non-endowed temporarily restricted to endowed temporarily restricted to accurately reflect temporarily restricted endowed funds.

	Unrestricted	Endowed Temporarily Restricted	Permanently Restricted	Total
Endowed net assets at June 30, 2012	$ 12,518,150	$ 64,953,081	$ 207,582,552	$ 285,053,783
Adjustment to beginning net assets	-	(6,705,489)	-	(6,705,489)
Adjusted beginning net assets	12,518,150	58,247,592	207,582,552	278,348,294
Investment return:				
Investment income	472,237	15,100,367	64	15,572,668
Net appreciation (depreciation)	(101,865)	2,276,992	-	2,175,127
Gain on sales of assets	-	-	57,541	57,541
Contributions (including interfund transfers)	1,385	1,098,117	6,495,268	7,594,770
Appropriation of endowed assets for expenditure	(5,188,581)	(8,887)	-	(5,197,468)
Other changes:				
Transfers to create board-designated Endowment funds	191,009	-	-	191,009
Satisfaction of donor restrictions	-	10,609	(10,609)	-
Endowed net assets at June 30, 2013	7,892,335	76,724,790	214,124,816	298,741,941
Investment return:				
Investment income	22,485	4,930,994	-	4,953,479
Net appreciation (depreciation)	311,729	22,991,808	(129,503)	23,174,034
Contributions (including interfund transfers)	874,268	1,822,939	4,618,859	7,316,066
Appropriation of endowed assets for expenditure	-	(5,618,047)	-	(5,618,047)
Other changes:				
Satisfaction of donor restrictions	-	1,372	(1,372)	-
Endowed net assets at June 30, 2014	$ 9,100,817	$ 100,853,856	$ 218,612,800	$ 328,567,473

12. Endowed Net Assets (continued)

The composition of endowed net assets, by fund type, at June 30, 2014 and 2013 was as follows:

	June 30, 2014			
	Unrestricted	Endowed Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ 100,853,856	$ 218,612,800	$ 319,466,656
Board designated endowment	9,100,817	-	-	9,100,817
Total	$ 9,100,817	$ 100,853,856	$ 218,612,800	$ 328,567,473

	June 30, 2013			
	Unrestricted	Endowed Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ 76,724,790	$ 214,124,816	$ 290,849,606
Board designated endowment	7,892,335	-	-	7,892,335
Total	$ 7,892,335	$ 76,724,790	$ 214,124,816	$ 298,741,941

13. Retirement Plan

The Foundation sponsors a 401(k) retirement plan for its employees. The Foundation contributes up to 4% of the employee's salary to the plan. An employee is vested 100% upon beginning employment with the Foundation. The retirement plan requires a minimum participation age of 21. The Foundation contributed $180,992 and $157,719 to the Plan during the years ended June 30, 2014 and 2013, respectively.

14. Operating Lease

The Foundation leases office space from the LSU Alumni Association under an agreement which has options for renewal periods extending through November 30, 2016. For the years ended June 30, 2014 and 2013, rent expense incurred under this agreement totaled $151,137 and $145,661, respectively.

15. Commitments

The Foundation has contractual commitments associated with projects for construction of historical exhibits at the LSU Rural Life Museum and a new Foundation office building. The total contract amount for these projects is approximately $2,284,000 and the remaining commitment as of June 30, 2014, totals approximately $1,038,000. The Foundation also has a contractual commitment associated with an equine lameness facility, for which fundraising efforts are ongoing, with a total contract amount and remaining commitment as of June 30, 2014, of approximately $41,200.

The Foundation committed $1,350,000 to Louisiana Fund I, L.P., a Delaware Limited Partnership in October of 2004. As of June 30, 2014, capital contributions have totaled $1,296,000. The Foundation also committed a total of $47,520,500 to various Private Equity Funds during the years ended June 30, 2005 through 2014. As of June 30, 2014, capital contributions have totaled approximately $32,000,000.

16. Transactions with the University

The Foundation has certain transactions in the normal course of operations with the University. The transactions consist of reimbursement for salaries, which are processed by the University and reimbursement for certain expenses paid by the University on behalf of the Foundation, such as payments of scholarships. The amount owed to the University at June 30, 2014 and 2013 for these types of expenses was $3,370,133 and $2,509,934, respectively.

17. Development Expenses

The Foundation incurred expenses totaling $4,674,026 and $3,776,120 for the years ending June 30, 2014 and 2013, respectively, related to development and fundraising. Such amounts are included in supporting services in the accompanying statements of activities.

18. Subsequent Events

The Foundation paid the balance of the outstanding bonds discussed in Note 9 on October 9, 2014.

The LSU Foundation intends to begin construction in 2015 of an office building to house the administrative operations of the LSU Foundation.

Management evaluated subsequent events through, October 9, 2014, the date that the financial statements were available to be issued and have determined that no additional disclosures were necessary. No events occurring after October 9, 2014 have been evaluated for inclusion in these financial statements.